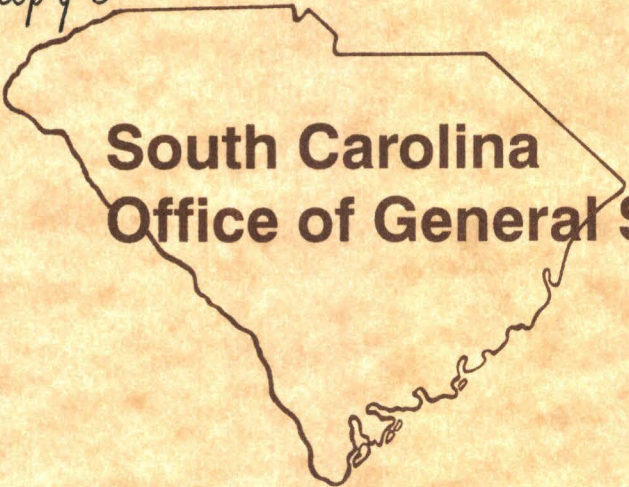


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

OFFICE OF THE ADJUTANT GENERAL

AGENCY

JULY 1, 1997 – SEPTEMBER 30, 1999

DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES

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DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

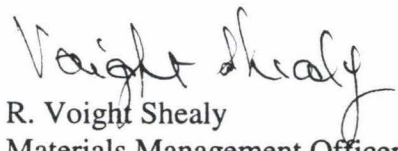
March 17, 2000

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the Office of the Adjutant General's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Office a three-year certification as noted in the audit report.

Sincerely,



R. Voight Shealy
Materials Management Officer

/jl

**OFFICE OF THE ADJUTANT GENERAL
PROCUREMENT AUDIT REPORT**

JULY 1, 1997 - SEPTEMBER 30, 1999

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STATE OF SOUTH CAROLINA
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

March 3, 2000

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the Office of the Adjutant General for the period July 1, 1997 through September 30, 1999. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the Office's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Office of the Adjutant General is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process.

Those affected assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management's authorization and are recorded properly.

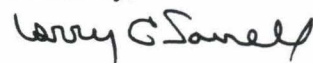
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Office of the Adjutant General in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry G. Sorrell", written in a cursive style.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Office of the Adjutant General. Our on-site review was conducted November 1, 1999 through December 8, 1999, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Office of the Adjutant General in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On June 18, 1998, the Budget and Control Board granted the Office of Adjutant General the following procurement certification:

<u>Procurement Area</u>	<u>Certification Limits</u>
Goods and Services	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Office of the Adjutant General requested the following increased certification limits.

<u>Procurement Area</u>	<u>Certification Limits</u>
Goods and Services	\$25,000 per commitment
Consultant Services	\$25,000 per commitment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Office of the Adjutant General and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1997 through September 30, 1999 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1997 through September 30, 1999
- (2) Procurement transactions for the period July 1, 1997 through September 30, 1999 as follows:
 - a) Eighty payments exceeding \$1,500
 - b) A block sample of two hundred eighty five sequential purchase orders reviewed for order splitting and favored vendors
- (3) Eight construction contracts and eight professional services contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual review
- (7) Procurement file documentation and evidence of competition
- (8) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Office of the Adjutant General, hereinafter referred to as the Office, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>General Procurement Code Exceptions</u>	7
A. <u>Quotation Preparation</u>	
The Office does not use a formalized document for soliciting written quotations for procurements from \$10,000 to \$25,000.	
B. <u>Purchases Without Evidence of Competition</u>	7
Four procurements were made without any evidence of solicitations of competition, sole source or emergency determinations.	
C. <u>Term Contract Numbers Not Referenced</u>	8
Term contract numbers were not referenced on purchase orders.	
D. <u>Restrictive Specifications</u>	8
One solicitation did not allow for an alternate or equal item to be submitted.	
II. <u>Sole Source and Emergency Procurements</u>	8
A. <u>Inappropriate Sole Sources</u>	
Three procurements were inappropriate as sole sources.	
B. <u>Emergencies Without Competition</u>	9
Three emergency procurements were not supported by competition.	
C. <u>Drug-Free Workplace Certification Not Obtained</u>	9
We noted six procurements for \$50,000 or greater where the Office did not obtain the required certification.	

RESULTS OF EXAMINATION

I. General Procurement Code Exceptions

A. Quotation Preparation

The Office does not use a formalized document for soliciting written quotations from vendors for procurements from \$10,000 to \$25,000. Section 11-35-1550(2)(d) of the Code requires written solicitation of written quotes, bids, or proposals be made and the procurement advertised at least once in the South Carolina Business Opportunities for procurements in this dollar range. Agencies accomplish a written solicitation by using a formalized document called a request for quotation (RFQ). The RFQ provides a standardized list that includes bid terms, conditions, opening date, delivery and vendor preference information.

We recommend the Office implement a standardized RFQ document for its procurement solicitations between \$10,000 and \$25,000. Vendor preferences must be made available to all potential bidders.

B. Purchases Without Evidence of Competition

The following four procurements were not supported by evidence of competition, sole source or emergency determinations.

<u>Item</u>	<u>PO</u>	<u>Description</u>	<u>Amount</u>
1	2315	Lease termination cost	\$ 2,600
2	102326	Consultant	12,000
3	4173	Lighting products	5,045
4	2285	Termite repair and other work	5,350

On item one, the Office terminated the lease on postage equipment prior to the expiration of the lease. The Office had to pay \$2,600 as a settlement for the early termination. The consultant for item two was hired to assist the Office in the area of disaster preparedness. The Office considered this procurement to be an exempt professional service contract as defined in Section 11-35-1270 of the Code. However, this exemption is intended for professionals (e.g. clergy, dentists, and physicians) not allowed to bid either by statute or professional ethics. Item three was a blanket purchase agreement for airport lighting products issued in an amount not to exceed \$10,000. The Office made a purchase of \$5,045 without competition against this blanket purchase agreement. When a blanket purchase agreement is established, competition is still required for any procurement greater than \$1,500. For item four, the original purchase order was issued for \$8,000 to paint a building. A change order was

issued for \$5,350 to cover the cost of termite damage and additional work requested by the Office. This should have been considered a separate procurement and competition solicited based on the potential value.

We recommend the Office adhere to the competitive requirements as defined in the Code and regulations.

C. Term Contracts Numbers Not Referenced

We noted a number of purchases from term contracts established by the Materials Management Office that did not reference the term contract number. To help ensure the proper contract terms and conditions, we recommend the term contract numbers be referenced on the purchase orders when applicable.

D. Restrictive Specifications

Solicitation DP-018-99 was issued for miscellaneous physical training clothes. The solicitation did not allow for an alternate or an equal to be bid. Therefore, all but one of the responses were rejected due to substitutions. We saw no clear reason why an alternate or an equal could not have been considered. Section 11-35-2730 of the Code requires that specifications be drafted so as to assure cost effective procurements of the actual needs and not to be unduly restrictive.

We recommend the Office allow for acceptable alternate or equal brands and to encourage as much competition as possible.

II. Sole Source and Emergency Procurements

A. Inappropriate Sole Sources

The following three sole source procurements were inappropriate.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
2212	Youth Academy uniforms	\$24,673
238	Lumber and building materials	5,063
605	Repair of pole building	8,000

Section 11-35-1560 of the Code allows for sole source procurements where there is only one source for a required item. The justifications for these procurements did not explain why the vendors were unique or why the items could not be obtained from other vendors.

We recommend that procurements that do not meet the definition of a sole source be competed in accordance with the Code and regulations.

B. Emergencies Without Competition

Three emergency procurements were not supported by competition.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
458	Pest control	\$12,500
2211	Pest control	9,500
628	Sprinkler system	2,387

The Office should have been able to obtain the appropriate level of competition, as time was available. Section 11-35-1570 of the Code requires that emergency procurements be made with as much competition as is practicable under the circumstances.

We recommend that competition be sought on emergency procurements when time is available.

C. Drug-Free Certification Not Obtained

We noted the following two sole source procurements and four emergency procurements greater than \$50,000 where the Office did not obtain the required certification from the vendors stating that they were in compliance with the South Carolina Drug-Free Workplace Act.

<u>PO</u>	<u>Description</u>	<u>Amount</u>	<u>Type</u>
664	Fire/security system	\$ 85,522	Emergency
1082	Work stations	239,943	Sole Source
1662	Roofing system	91,252	Emergency
2328	Runway lighting	53,590	Emergency
503	Energy management	51,580	Sole Source
365	Consulting services	58,362	Emergency

Section 44-107-10 of the South Carolina Code of Laws requires on any contract of \$50,000 or more that a certification be obtained stating that the vendor maintains a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend the Office obtain the drug-free workplace certification on all sole source and emergency contracts greater than \$50,000.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, will in all material respects place the Office of the Adjutant General in compliance with the South Carolina Consolidated Procurement Code and ensuing Regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Office of the Adjutant General be recertified to make direct agency procurements for three years up to the limits as follows:

PROCUREMENT AREAS

Goods and Services

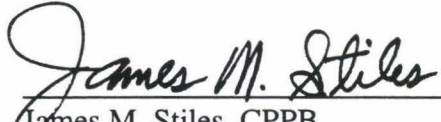
Consultant Services

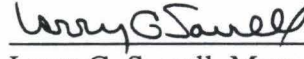
RECOMMENDED CERTIFICATION LIMITS

*\$25,000 per commitment

*\$25,000 per commitment

*Total potential purchase commitment whether single year or multi-term contracts are used.


James M. Stiles, CPPB
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

The State of South Carolina

Military Department



STANHOPE S. SPEARS
MAJOR GENERAL
THE ADJUTANT GENERAL

OFFICE OF THE ADJUTANT GENERAL
1 NATIONAL GUARD ROAD
COLUMBIA, S.C. 29201-4766

TAG-DSO-DP

March 15, 2000

Mr. Larry G. Sorrell
Manager, Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Larry:

Our office has looked in detail at the findings and observations identified in your draft procurement audit report for this agency. We consider any finding, comment or discussion during an audit or inspection to be constructive and helpful to us in performing our jobs better. We concur with your report and have implemented corrective action, where possible. Procedures are in place to ensure that these type deficiencies are not repeated.

I want to personally thank your staff, Jim and David, for their professionalism and dedication in working so effectively and conscientiously with us while exhibiting a friendly and cheerful attitude. We appreciate their efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Jennings".

Tony Jennings
Chief, Contracting Division
Office of the Adjutant General

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

March 17, 2000

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the Office of the Adjutant General to our audit report for the period of July 1, 1997 – September 30, 1999. Also we have followed the Office's corrective action during and subsequent to our fieldwork. We are satisfied that the Office has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the Office of the Adjutant General the certification limits noted in our report for a period of three years.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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